



United States General Accounting Office
Washington, DC 20548

March 4, 2003

The Honorable Thomas A. Scully
Administrator
Centers for Medicare and Medicaid Services

Subject: *Medicare Trust Funds Actuarial Estimates: Efforts Have Been Made to Improve Internal Control over Projection Process but Some Weaknesses Remain*

Dear Mr. Scully:

Medicare spending growth remains one of the most pressing and complex issues facing the Congress and the nation. During calendar year 2001, the most recent year for which complete data were available at the time of our review, over 40 million Medicare enrollees received \$240.9 billion in benefits from the trust funds maintained for Hospital Insurance (HI) and Supplementary Medical Insurance (SMI), Medicare's two components.

The Boards of Trustees¹ of the trust funds are required to report annually on the current and projected financial status of the Medicare program to the Congress and the American people.² The Centers for Medicare and Medicaid Services' (CMS) Office of the Actuary (OACT) provides estimates to the boards to assist them in setting certain assumptions about HI and SMI future performance that are needed to prepare long-range and short-range projections of the financial status of the trust funds for the Trustees' reports. Based on the boards' assumptions, OACT then prepares the projections and the Trustees' reports for the boards. In its 2002 annual report, the Board of Trustees estimated that, under current rules, HI expenditures would begin

¹ The Medicare Boards of Trustees were established under the Social Security Act, as amended, to oversee the financial operations of the Medicare trust funds. The boards are composed of the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security, and two members of the public who are appointed by the President and confirmed by the Senate. These same Trustees serve on the Board of Trustees for the Social Security trust funds. Many of the demographic and economic assumptions that determine Medicare costs and income are common to the Social Security trust funds.

² 42 U.S.C. 1395i requires the Medicare Trustees to submit an annual report on the HI Trust Fund; 42 U.S.C. 1395t requires the Trustees to submit an annual report on the SMI Trust Fund.

to exceed tax revenue in calendar year 2016, causing the trust fund to be exhausted in 2030.³

A wide spectrum of users relies on these projections for a variety of purposes. These include the Congress, which needs reliable information about the Medicare trust funds to make informed decisions about future HI and SMI program funding and benefits. Providing decision makers with reasonable assurance about the reliability of financial reporting is one of the specific objectives of internal control. The *Standards for Internal Control in the Federal Government*⁴ issued by the Comptroller General consider an entity's internal control in terms of its control environment, risk assessment, control activities, information and communication, and monitoring and apply to all aspects of an agency's operations: programmatic, financial, and compliance. Strong internal control is particularly important in OACT, where making reliable projections is intensively people and process oriented. Control activities—the policies, procedures, techniques, and mechanisms that enforce management's directives—are a key aspect of an effective system of internal control and include proper reviews, approvals, and documentation that help ensure work processes are carried out according to management's directives. For example, control activities include checks and balances that provide reasonable assurance that data are entered correctly and calculated results are reported properly. Control activities also include effective management of an organization's workforce—its human capital—which is essential to achieving results. Monitoring activities, another key aspect of internal control, help track the effectiveness of control activities, including those to ensure that findings of audits and other reviews are promptly resolved.

We selected these activities for review because of their importance in the preparation of long-range financial projections for the HI and SMI trust funds. Our specific objectives were to identify and evaluate the adequacy of OACT's (1) control activities over the projection process, (2) human capital practices related to workforce planning, and (3) tracking and resolution process to address recommendations from technical panels and other reviewers. To achieve these objectives, we reviewed prior reports by technical panels and other reviewers, interviewed OACT management and staff and certain other CMS officials, and obtained and reviewed available documentation concerning the projection process. We used as a guide the *Standards of Internal Control in the Federal Government*⁵ with a focus on OACT control activities over the long-range projection process used for the 2002 Trustees' report. We conducted our work in Washington, D.C., and Baltimore, Md., from October 2001 to November 2002 in accordance with generally accepted government auditing standards. We did not evaluate the actuarial assumptions and methodology because they are subject to periodic reviews by technical panels and others. Further details of our scope and methodology are provided in enclosure I.

³ The SMI premium and corresponding income from general revenues are established annually at a level sufficient to cover the following year's expenditures. Thus SMI is automatically in financial balance under present law.

⁴ U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). 31 U.S.C. 3512(c),(d) (The Federal Managers' Financial Integrity Act of 1982 (FMFIA)) requires GAO to issue standards for internal control in the federal government.

⁵ GAO/AIMD-00-21.3.1.

Results in Brief

Since fiscal year 2000, OACT has taken significant steps toward improving internal control over its trust fund projection processes. During 2000, the Department of Health and Human Services (HHS) engaged KPMG Consulting⁶ to perform a study of OACT's workload and workforce. Assisted by KPMG Consulting, OACT addressed the consultants' initial recommendations by developing a guide for preparing work products, developing a workforce management plan, beginning implementation of those tools, and beginning to address recommendations of a fiscal year 2000 Technical Panel.⁷ Although the Technical Panel found OACT's work to be of excellent quality, room for improvement exists, as important elements of OACT's recently planned initiatives have not yet been fully implemented and several controls over its projection processes for Trustees' reports are not formalized, thus increasing the risk that errors in OACT's future projections of Medicare trust funds' financial status would go undetected.

Our review found that OACT had not documented a comprehensive, detailed description of the processes necessary to prepare the long-range projection for the Trustees' report and that documentation of the procedures performed by OACT's staff and reviewers during the projection process was limited. We also found that documentation of criteria for adjustments and reviews and the changes to data made by staff were lacking. Documentation weaknesses were also reported by two previous independent reviewers of OACT. Without explicit documentation of OACT's work processes and work performed, reviewers' opportunity for beneficial oversight was reduced, and the risk that errors in the projection process would go undetected was increased. While no errors have been identified in reviews of OACT's actuarial assumptions and methodologies, these reviews have also pointed out the need for increased documentation. According to OACT officials, resource constraints were a key reason limiting the extent to which documentation was prepared.

OACT has developed a human capital management plan that focuses on workforce planning activities and addresses, among other issues, succession planning. As part of this plan, OACT has determined that approximately one-fourth of the group that prepares the Trustees' report would be eligible to retire over the next 5 years. Also, as part of the plan, OACT has begun to implement a professional development program, which identifies key technical and professional competencies for staff. However, OACT has not yet developed a formal training plan to align targeted training opportunities with the key competencies established by the professional development program. OACT officials indicated that a lack of resources has limited

⁶ In October 2002, KPMG Consulting changed its name to BearingPoint.

⁷ The purpose of the Technical Panel was to review and make recommendations about the methods and assumptions underlying the Medicare Trustees' reports. The Technical Panel was convened on behalf of the Medicare Board of Trustees and was governed by provisions of the Federal Advisory Committee Act (5 U.S.C. Appendix), which set forth standards for the formation and use of advisory committees. Per requirements established under the Technical Panel charter, the Technical Panel consisted of seven members, selected by the Secretary of HHS, or designee, who were experts in the fields of economics and actuarial science.

the number of training and professional development opportunities they have been able to offer staff. With impending staff retirements and without fully implemented programs to enhance staff knowledge and expertise, the risk that OACT staff could fall short of developing skills needed to achieve organizational goals is increased. In 2000, HHS initiated two studies of OACT—the aforementioned KPMG Consulting study and the Technical Panel review—that resulted in a number of recommendations related to workforce planning, actuarial methodology, and assumptions. While OACT has taken steps to prioritize and resolve some of these recommendations, it lacks a formal monitoring policy and standard process for (1) tracking recommendations it has received, (2) deciding which recommendations should be implemented, (3) determining the priority recommendations should receive, and (4) documenting the resolution of each recommendation. Without a formal tracking and resolution process, OACT leaves open the possibility that identified deficiencies or important initiatives may not be resolved, and operations may not be improved in a timely manner.

We are making recommendations aimed at strengthening OACT's internal controls over documentation of planned and performed procedures, training of staff, and tracking the resolution of reviewers' recommendations. In comments on a draft of this report, CMS generally agreed in principle with our recommendations and described initiatives it has planned or recently begun for resolving the underlying internal control issues. CMS also emphasized that management should design and implement internal control based on related costs and benefits and expressed concern about its ability to implement some of our recommendations given its current lack of resources. These resource constraints have resulted in the need for continued prioritization of improvement efforts. Further, in recognition of these resource constraints, we included in our recommendations that CMS consider the use of alternative approaches such as additional contractor assistance, to address our recommendations.

Background

Medicare provides health care coverage to citizens and permanent residents of the United States under specific circumstances as a responsibility of the government. CMS, an agency under HHS, is responsible for administering Medicare and other programs that address the nation's health care needs. The Medicare program is comprised of two parts, HI and SMI. HI pays for hospital, some home health, skilled nursing facility, and hospice care for Medicare beneficiaries and is financed primarily by payroll taxes paid by employees and employers. SMI pays for physician, outpatient hospital, some home health, and other services for Medicare beneficiaries. It is financed primarily by the general fund of the federal government and by monthly premiums paid by beneficiaries. Income in excess of expenditures is held in the HI and SMI trust funds and invested in federal government securities.

OACT's primary mission is to provide the most accurate information and projections to aid policy makers during their decision-making process. OACT is divided into

three offices: The Immediate Office,⁸ the Medicare and Medicaid Cost Estimates Group, and the National Health Statistics Group. Two independent studies have included recommendations that more resources be devoted to OACT. OACT's workload has increased due to legislation, such as the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000,⁹ which requires OACT to review all Medicare+Choice¹⁰ benefit package proposals submitted on or after May 1, 2001, to determine if all underlying actuarial assumptions and data used by providers in their proposals are appropriate. In addition, the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999¹¹ required OACT to compute Medicare fee-for-service expenditures on a county-specific basis and publish its results.

While new legislation has added to OACT's workload, the office also has continued to respond to ad hoc requests, including those from the Congress, and to complete its recurring work products, such as the Trustees' report. The Medicare and Medicaid Cost Estimates Group within OACT produces the annual report of the Board of Trustees on the current and projected financial condition of the HI and SMI trust funds based on assumptions set by the Trustees, in addition to assisting with certain OACT activities discussed above. Work on the Trustees' reports, for the most part, takes place during February and March.

The Trustees' reports present both short-range (10-year) and long-range (75-year) projections of the HI and SMI trust funds' future financial condition. The estimates are made based on current law and board-approved assumptions about the factors that affect the income and expenditures of the trust funds. These factors include demographic, economic, and health care cost assumptions. OACT primarily uses economic and demographic assumptions developed by the Social Security Administration (SSA) OACT and approved by the board. However, OACT is responsible for developing assumptions about health care costs for board consideration, including assumptions about increases in medical prices and utilization of medical services.¹² OACT uses a complex model, consisting of a series of computer spreadsheets, to generate the long-range projections for HI and SMI. Data used in the projection come primarily from the SSA and CMS's Office of Information Services.

The Board of Trustees' projection assumptions and OACT's actuarial projection methodology are subject to periodic review by independent experts to ensure their validity and reasonableness. In fiscal year 2000, a Medicare Technical Review Panel was convened by the Secretary of HHS at the request of the Medicare Boards of Trustees to review the assumptions and methods underlying the projections included

⁸ The Immediate Office, which includes the Chief Actuary, is responsible for responding to highly specialized requests that include pension audits, policy analysis, and unique legislative or regulatory initiatives.

⁹ Public Law 106-554, Appendix F, 114 Stat. 2763A-463, 2763A-566.

¹⁰ The Medicare+Choice program was created in 1997 in an effort to expand beneficiaries' managed care options. A Medicare+Choice plan is a type of health plan offered by a private company and approved by Medicare.

¹¹ Public Law 106-113, Appendix F, 113 Stat. 1501A-321, 1501A-383.

¹² For example, to help project increases in hospital inpatient costs, OACT estimates changes in the hospital market basket index, which tracks the prices of goods and services purchased by hospitals for use in providing care to hospital inpatients.

in the Trustees' reports.¹³ While making numerous recommendations about actuarial methodologies and assumptions and documentation regarding the projection process, the Technical Panel reported that the projection work of OACT is of excellent quality and that OACT performs in a highly competent and completely professional manner.

Also in fiscal year 2000, HHS hired KPMG Consulting to perform a study of OACT's workload and workforce. KPMG Consulting benchmarked CMS's OACT with other organizations, including SSA, in order to provide OACT with best-practices strategies that addressed areas the consultants identified as being critical to its successful operations. While OACT has been subjected to reviews by technical panels and KPMG Consulting, internal control over OACT's projection processes had not previously been independently reviewed.

Although projections are inherently uncertain because they depend on assumptions about the occurrence of future events, an effective system of internal control can help provide reasonable assurance that projections included in financial reports are reliable. The Comptroller General issues standards for internal control in the federal government¹⁴ that provide the overall framework for management to establish and maintain internal control and to identify and address major performance and management challenges. According to these standards, internal control, also referred to as management control, comprises the plans, methods, and procedures used to meet the missions, goals, and objectives of an organization. One of its objectives is the reliability of financial reporting, including financial statements and other reports for internal and external use.

The Federal Accounting Standards Advisory Board¹⁵ (FASAB) promulgates federal accounting standards which form the foundation for preparing consistent and meaningful financial statements both for individual agencies and the government as a whole. FASAB is currently reviewing the accounting and financial reporting requirements for social insurance trust funds. The provisions of Statement of Federal Financial Accounting Standards No. 17 currently require reporting social insurance information as Required Supplementary Stewardship Information,¹⁶ resulting in limited audit coverage. Reclassifying the required information as basic financial information, as currently discussed by FASAB, would subject the information to more extensive audit scrutiny. While specific procedures to audit social insurance information have not been developed, typical audit procedures would likely include obtaining an understanding of policies and procedures, assessing the adequacy of internal control, and analyzing key projections.

¹³ The 2000 Technical Panel report is available on CMS's Web site: <http://cms.hhs.gov>.

¹⁴ U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

¹⁵ In October 1990, the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Comptroller General (the Principals) established FASAB to develop a set of generally accepted accounting standards for the federal government. Effective July 1, 2002, FASAB is comprised of six nonfederal or public members and representatives of the three Principals.

¹⁶ Federal Accounting Standards Advisory Board, *Statement of Federal Financial Accounting Standards No. 17, Accounting for Social Insurance*, August 1999.

**Further Improvements in
Documentation of Projection
Process Are Needed**

As part of its initiative to improve its quality control process, OACT has begun to document projection methods and results, but significant gaps remain. We noted that OACT had not fully documented the procedures required for preparing Trustees' report projections of the HI and SMI trust funds. Also, when preparing the projections, documentation of the work that staff performed was incomplete and adjustments and changes to data or results were undocumented. Further, criteria for reasonableness reviews of data and projections results were lacking, and documentation of managerial and supervisory reviews was inadequate. OACT management cited resource constraints as a key reason for not performing these control activities. Individually or collectively, the lack of documented planned procedures, work performed, and reviews increases the risk that errors in the projection process could go undetected, and impedes efforts by those who evaluate the projections.

According to the *Standards for Internal Control in the Federal Government*,¹⁷ management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that internal control is built into and an integral part of operations. The *Standards* also state that internal control events need to be clearly documented, and the documentation should be readily available for examination. Moreover, actuarial standards of practice¹⁸ state that actuaries should identify the data, assumptions, and methods they use with sufficient clarity so that another actuary qualified in the same practice area could evaluate the reasonableness of the actuary's work.¹⁹ These standards also stipulate that this documentation be retained for a reasonable period of time.

We found that OACT was beginning to document more of its processes, as it had developed two checklists describing the procedures necessary to prepare the projections. These checklists generally included an indication of the computer spreadsheets that OACT must complete to prepare its projections, data sources needed to complete each spreadsheet, and notes related to the spreadsheets. However, we found that the checklists were sometimes incomplete or outdated, or completed improperly. For example, the checklist used by the HI team for the most recent Trustees' report did not include several steps necessary to complete the projection process, and the other checklist used by the SMI team had not been updated for the most recent Trustees' report projection and included a step that was the responsibility of a different team. Also, actuaries completing the work specified by the checklists were not required to initial or date the checklist to indicate they had completed the work. In the absence of such controls, OACT management must rely

¹⁷ GAO/AIMD-00-21.3.1.

¹⁸ Actuarial standards of practice are promulgated by the Actuarial Standards Board. These standards are designed to provide practicing actuaries with a basis for ensuring that their work will conform to generally accepted principles and practices and to assure the public that actuaries are professionally accountable.

¹⁹ Actuarial Standard of Practice Number 41, *Actuarial Communications* (Washington, D.C.: March 2002).

on staff's institutional knowledge of the process to obtain assurance that the work was properly completed.

CMS actuaries told us that they did not typically document data abnormalities or adjustments they made to source data. For example, during the preparation of the projection for the 2002 Trustees' reports, a CMS staff member noticed that an element of source data differed dramatically from prior years' data. The staff member investigated the data and concluded that one hospital had erroneously reported a large amount of payments that was skewing the data. Based on his professional judgment, the staff member unilaterally removed the data in question from the projection calculation to correct the problem. The staff member indicated that this was the type of adjustment that could be made without presenting the problem before the entire projection team or documenting the adjustment. In our view, this change appears to have been reasonable because, according to the actuary, the amounts reported by the hospital were skewed, compared to historical trends. However, the adjustment was not documented and therefore not subjected to supervisory review and scrutiny. Proper documentation of these types of changes would show the nature of the adjustment made and an indication of supervisory approval.

We also found that OACT had not documented criteria for acceptable ranges of fluctuation for ratios and trends between reporting periods to provide guidance for consistently judging reasonableness of data and projection results from year to year. For example, CMS actuaries told us that, as a general rule, they compare data obtained internally with data from the Department of the Treasury and use a 1 percent variance as a general criterion; however, this criterion is not documented. Establishing and documenting acceptable ranges for fluctuation of ratios and trends are important because these tests are used to judge the reasonableness of source data, calculations of projection components, and overall results from the model.

OACT's primary control over preparing reliable financial projections is a series of reasonableness reviews involving comparisons of the current year's source data, component calculations, and final projected results with those from the prior year. OACT staff members provided us with several graphs and trend analyses of specific data elements used in making their estimates, and told us that about 50 to 60 graphs and charts would typically be used as part of the final review process. While OACT officials said they included these graphs and trend analyses in their review, the documents we reviewed lacked any evidence to demonstrate that the reviews were completed. OACT staff also told us that they are required to initial each table and graph in a draft copy of the Trustees' report to indicate their review, but because that report draft copy had already been discarded, no documentation was available as evidence of these reviews. Although we found that documentation was limited, according to OACT, several reviews were conducted as part of the projection process. For example, OACT told us that these reviews included an internal peer review involving more than one person at each stage of the projection process, within the group that prepares the projections, and a "summary phase" at the end of work on the Trustees' report, when every staff member in the office was given a copy of the work and asked to review it for reasonableness. While such reviews provide quality control, a lack of documentation of these reviews limits assurance to management

that its directives have been carried out and limits the ability of subsequent reviewers to rely on procedures performed.

OACT management told us they are only able to document their processes and related controls as time allows. The 2000 Technical Panel, which recommended that more explicit documentation be made available, recognized the need for more resources to be devoted to OACT. In addition, KPMG Consulting's 2001 report noted that benchmarked organizations²⁰ used 30 percent of their workload hours documenting their methods and results, but that OACT spent only 10 percent of its time on documentation. The KPMG Consulting report also noted that OACT is currently understaffed.

The OACT's Quality Council chartered a team within the office to address how work products should be developed and delivered. Based on the team's findings, OACT, with assistance from KPMG Consulting, developed and is currently implementing a guide, the *OACT Collaborative Peer Review System*. This guide generally provides for review of data inputs and adjustments made to input data; analytical review of all component calculations; a final review for accuracy, reasonableness, and consistency with prior results; and "preferred operating procedures" for actuaries to use in anticipation of a review, such as the "use of checklists of procedures" and maintaining an "audit trail of procedures and of adjustments."

We generally found the new *OACT Collaborative Peer Review System* to be a sufficient general guide for OACT's work processes although at the time of our review, many of the preferred operating procedures established by the guide were not yet being followed for work performed for the Trustees' report. OACT management told us that the peer review system was implemented for all team and individual work projects in August 2002, and they plan to follow its guidelines when preparing the 2003 Trustees' report.

OACT officials also told us that, after piloting, implementation of the *OACT Collaborative Peer Review System* was initially focused on projects such as legislative proposal projections because these types of projections present new and different challenges to the projection process with each request, while preparation of Trustees' reports is a recurring activity for which institutional knowledge exists. Nevertheless, the importance of these projections along with broad public access to and scrutiny of Trustees' report projections suggests effective internal controls over their preparation are needed.

Collectively, the lack of complete and current documentation of (1) the planned projection procedures, (2) work completed during the projection process including adjustment of data and component calculations, (3) criteria for review of data projection results, and (4) the reviews by supervisors and managers increases the risk that errors could occur in future projections and not be detected. In addition, these documentation deficiencies limit

²⁰ This analysis included an examination of several diverse public and private organizations employing actuaries, economists, and statisticians in health-care related environments.

- guidance available to staff on projection preparation;
- evidence that proper practices are consistently followed from year to year, as planned;
- assurance to OACT's management regarding projection reliability;
- opportunities to provide staff, especially new staff, with an overview of the entire projection process; and
- effectiveness and efficiency of reviews within and outside of OACT, such as OACT's ability to effectively and efficiently communicate its projection procedures.

In addition, increased audit scrutiny that could result from FASAB's current consideration of changes to social insurance reporting requirements would magnify the need for documentation of projection procedures and planned steps performed. Furthermore, as discussed in the next section, retirement eligibility will seriously impact OACT in the next 5 years. When experienced actuaries retire and less experienced actuaries replace them, the documentation needed to bridge the knowledge gap becomes more critical. In consideration of potential near-term retirements and associated staff changes, documenting the projection process is critical for an efficient transition of workload.

Full Implementation of Human Capital Plan Will Further Enhance Workforce Management

According to KPMG Consulting, OACT has effective human capital practices in place to ensure it is hiring staff with the appropriate skill sets. OACT has developed a human capital management plan that focuses on workforce planning issues and that incorporates a professional development program. As part of this workforce management plan, OACT determined that one-fourth of the Medicare and Medicaid Cost Estimates Group would be eligible to retire over the next 5 years, including key management, and developed a succession plan to help it prepare for impending retirements. OACT has begun to implement its workforce management plan, and full implementation of the professional development program is expected during fiscal year 2003. However, OACT has not yet developed a training plan to identify courses critical for staff in their professional development.

According to the *Standards for Internal Control in the Federal Government*, effective management of an organization's workforce—its human capital—is essential to achieving results and an important part of internal control. Management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills to match those necessary to achieve organizational goals. Training should be aimed at developing and maintaining employee skill levels to meet changing organizational needs.

Our analysis of training programs at federal agencies²¹ emphasized that to design and implement effective training programs, agencies must (1) identify the competencies needed to achieve their specific mission and goals and measure the extent to which

²¹ U.S. General Accounting Office, *Human Capital: Design, Implementation and Evaluation of Training at Selected Agencies*, GAO/T-GGD-00-131 (Washington, D.C.: May 18, 2000).

their employees exhibit those competencies, (2) identify training and development needs to be addressed, and (3) evaluate the extent to which their training programs are actually increasing employees' individual competencies and individual and overall organization performance levels. Effective training programs include training curricula for developing employee skills in selected occupations; require or recommend that employees complete training on specific topics or meet a minimum number of training hours; and make training slots available each year on the basis of estimated needs, priorities, and available resources.

As previously discussed, KPMG Consulting studied OACT's workload and workforce. At the time of KPMG Consulting's study, OACT had about 61 full-time equivalent staff, and the consultants' analysis determined that OACT was understaffed by 26.5 full-time equivalent staff, or approximately one-third of recommended staff levels. KPMG Consulting concluded that OACT's staff was "skilled and professionally certified with a high degree of experience in both actuarial science and economics." KPMG Consulting also found that OACT has a "high level of commitment to recruiting and targeting of KSAs (knowledge, skills, and abilities)" and has worked closely with the CMS human resources staff to acquire the necessary talent.

In order to address key human resource issues, OACT worked with KPMG Consulting to develop a human capital plan that focuses on workforce planning issues. According to OACT management, this plan is being used as a model for CMS. This plan includes a succession plan and table identifying employees eligible to retire within the next 5 years. During its planning process, OACT determined that in the next 5 years, approximately 25 percent of the Medicare and Medicaid Cost Estimates Group would be eligible for retirement, including two of its three current managers. OACT has developed and begun to implement a targeted recruiting strategy to address this problem.

To further prepare for future retirements, OACT management designed a professional development program to expand OACT's current training program, which primarily consisted of allowing staff to use work time to study for exams given by the Society of Actuaries²² and in-house training courses tailored to meet immediate office needs. Under the professional development program, which was starting to be implemented at the end of fiscal year 2002, key technical and professional competencies that staff and managers should have were identified.

Using these key competencies as a baseline, management and staff are currently working cooperatively to prepare development plans for each staff member by identifying specific areas in which improvement is needed. However, OACT has struggled to identify and make available appropriate development resources that will help staff enhance their performance. Although OACT management has identified certain training opportunities, they have not aligned the training opportunities with the key competencies. Also, according to OACT management, budgetary restraints

²² The Society of Actuaries (SOA) is an educational, research, and professional membership organization with the purpose of advancing actuarial knowledge and enhancing the ability of actuaries. To become a member of SOA, one must successfully complete a series of SOA examinations.

have limited its ability to aggressively pursue training and professional development opportunities. Until these obstacles are overcome, OACT cannot fully implement its planned professional development program.

**Lack of a Formal Policy and Process
to Track and Address Recommendations
Could Reduce Opportunity for Improvements**

OACT management has begun a number of initiatives to respond to recommendations from external reviews, including the KPMG Consulting study and the Technical Panel report. However, OACT currently handles recommendations primarily through informal planning sessions and has not developed a formal monitoring policy and process to document decisions made at its planning sessions and to ensure that recommendations from technical panels and other reviewers are tracked and addressed in a timely manner.

According to *Standards for Internal Control in the Federal Government*, monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. The resolution process begins when audit or other review results are reported to management and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates that the findings and recommendations do not warrant management action. Evaluation of an organization's programs and its successes in identifying and implementing additional actions is an integral element of continued improvement in operations. The Office of Management and Budget (OMB) Circular A-50, *Audit Followup*, provides policies for executive branch agencies to use when following up on our reports, and reports issued by the inspectors general (IG) and others, and emphasizes the importance of establishing a system to provide a complete record of action taken on recommendations.

As previously discussed, in fiscal year 2000, HHS hired KPMG Consulting to perform a study of OACT's workload and workforce, which resulted in a number of KPMG Consulting recommendations. OACT has continued to contract with KPMG Consulting for assistance in addressing these recommendations. To deal with recommendations included in KPMG Consulting's report, management held several informal discussions to decide which recommendations would receive higher priority and how they could be addressed. For example, OACT worked with KPMG Consulting to develop a workforce management plan that addressed recommendations from the original KPMG Consulting study. However, OACT management indicated that this plan was not actually being followed step-by-step, as originally intended, nor have deadlines set in this plan been met. For example, the workload balancing plan was to have been implemented by December 14, 2001. However, while OACT managers have begun informally to consider which work areas are the most understaffed, they told us there was still much work that needed to be done before the workload balancing plan was fully implemented.

In fiscal year 2000, the Medicare Technical Review Panel, convened to review the methods and assumptions underlying the Medicare Trustees' reports, made 28 recommendations, 60 percent of which have been fully or partially addressed,

according to management. These recommendations ranged from being very specific, including a recommendation that OACT assume faster growth in long-term health care costs, to very broad, including recommendations that OACT's staff and research budgets be significantly expanded and that documentation needed to be made more explicit. A KPMG Consulting advisor reviewed the Technical Panel's recommendations and in turn recommended that a multiyear plan be developed to implement the remaining Technical Panel recommendations. Even though OACT is not required to respond formally to the Technical Panel, after the Technical Panel released its results, OACT managers discussed the results informally and worked to categorize the recommendations by those that could be handled within their office, those that could be handled with other components within CMS, and those that would need to be contracted out. However, this information was not incorporated into a formal plan that indicated how the recommendations were assigned and established a timetable for resolving the Technical Panel's recommendations.

In response to our work, OACT management has improved its tracking system to handle recommendations from the Technical Panel report. This tracking document lists each Technical Panel recommendation and provides notes (e.g., "considered" or "implemented") for most of the recommendations. However, this tracking document does not provide management's position on the recommendations, establish a timetable for resolving the recommendations, or designate a management official to oversee the resolution process, which are provided for in OMB Circular A-50 regarding audit follow-up.²³ Moreover, this tracking document does not assign risk levels to establish a priority for resolving recommendations, as suggested by the *Standards for Internal Control in the Federal Government*.²⁴ In addition, the tracking document did not yet include recommendations from KPMG Consulting.

OACT managers have reacted positively to recommendations issued by KPMG Consulting and the Technical Panel, using these reports to develop an understanding of challenges OACT is facing. However, unless OACT builds upon the informal resolution process it currently uses, management risks being uninformed about the status of planned actions, leaving open the possibility that initiatives may not be completed in a timely manner or that they may go uncompleted. Untimely attention or inattention to planned actions delays expected operational or efficiency improvements to OACT's processes and might effectively waste the resources expended by technical panels and other reviewers.

Conclusion

The Congress and other decision makers need reliable information to make difficult policy decisions concerning the rising costs of the Medicare program that are expected to significantly impact federal spending in the not-too-distant future. Effective internal control over OACT's projection process can help provide assurance that information is reliable. While OACT has taken a number of important steps to

²³ While the policies outlined in OMB Circular A-50 are applicable to audit follow-up, and the review by the Technical Panel would not appear to be considered an audit for purposes of the Circular, we view these policies as critical in providing assurance to OACT management that the resolution process has been properly completed.

²⁴ GAO/AIMD-00-21.3.1.

improve its system of internal control, certain controls are not functioning effectively. Most significantly, inadequate documentation of the procedures used to make the projections, work completed during the projection process, and reviews of projection work and products by supervisors and managers increases the risk that errors could occur in projections and not be detected. While resource constraints have impeded OACT's documentation efforts, documenting all tasks is important for proper oversight of the process and the efficient transfer of knowledge concerning policies, procedures, and processes to new staff.

Furthermore, while OACT has developed a workforce management plan, it has not yet fully implemented the professional development program to ensure that staff skills are commensurate with organizational needs. Without linking training opportunities to key competencies, OACT will be prevented from maximizing the effectiveness of its planned professional development program. Moreover, management has not documented the priority and other key elements of actions planned and taken to address recommendations from technical panels and other reviewers, increasing the risk that significant recommendations might not be addressed in a timely manner.

Recommendations for Executive Action

To address the internal control weaknesses we identified related to documentation, workforce management, and monitoring follow-up of external review recommendations, we recommend that the Administrator of CMS direct the Chief Actuary to

- fully implement plans to document the
 - current procedures needed to prepare the projections, including acceptable criteria for reasonableness tests,
 - work performed by staff to prepare projections, and
 - supervisory and management reviews;
- fully implement the professional development program and develop a formal training curriculum that includes identification of appropriate training opportunities linked to key competencies; and
- develop and implement a formal policy to track, follow-up, and resolve findings and recommendations of external audits and reviews.

In addition, to overcome the challenge of limited resources, we recommend that the Administrator of CMS, in consultation with the Chief Actuary, consider use of alternative approaches, such as additional contractor assistance, to address the above recommendations.

Agency Comments and Our Evaluation

In written comments (reprinted in enclosure II) on a draft of this report, CMS generally agreed in principle with our recommendations and discussed steps it has

begun or is planning to take to address OACT's internal control challenges. CMS also recognized the need for improvement, but expressed concern that significant understaffing relative to its workload would impact OACT's efforts to implement our recommendations. While we recognize that OACT has limited resources, OACT could use to the extent feasible alternative approaches, such as contractor assistance, to implement necessary controls, as we included in our recommendations. Although CMS did not address this recommendation in its comments, in subsequent discussions, an OACT official indicated they plan to continue to use contractor assistance to implement certain initiatives.

In its comments, CMS reaffirmed its strong commitment to effectiveness, efficiency, and accountability in both the performance of its work and the conduct of control activities. It also described its continuing efforts to fully implement its new peer review system and to refine its workforce management program. We encourage CMS to follow through and continue its practice of prioritizing its improvement efforts. In addition, CMS provided technical and editorial comments, which we incorporated as appropriate.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight within 60 days of the date of this report. You must also send a written statement to the House and Senate Committees on Appropriations with the agency's first request for appropriations more than 60 days after the date of this report.

We are sending copies of this report to the Chairman and Ranking Minority Member, Senate Committee on Governmental Affairs; the Chairman and Ranking Minority Member, Senate Committee on Finance; the Chairman and Ranking Minority Member, House Committee on Government Reform; the Chairman and Ranking Minority Member, House Committee on Ways and Means; the Chairman and Ranking Minority Member, Subcommittee on Health, House Committee on Energy and Commerce; and other interested congressional committees. In addition, this report is available at no charge on our Internet home page at <http://www.gao.gov>. If you have any questions about this report, please contact me at (202) 512-9508 or Kay L. Daly, Assistant Director, (202) 512-9312. You may also reach us by e-mail at calboml@gao.gov or

dalykl@gao.gov. Key contributors to this assignment were Joseph Applebaum, Lisa Crye, Marie Novak, Taya Tasse, Jack Warner, and Brooke Whittaker.

Sincerely yours,

A handwritten signature in black ink, reading "Linda Calbom". The signature is fluid and cursive, with the first name "Linda" and last name "Calbom" clearly distinguishable.

Linda Calbom
Director, Financial Management and Assurance

Enclosures

Scope and Methodology

Because of the importance of long-range projections, their inclusion in agency and governmentwide financial reports, and the potential for their being subjected to increased audit scrutiny as basic financial information, we focused on internal control over the procedures used by OACT to prepare the 2002 long-range projection. Throughout our work, we used as a guide the *Standards of Internal Control in the Federal Government*.²⁵ Because of the technical nature of OACT's work, we focused on assessing control activities, including workforce management and monitoring activities, including recommendation follow-up.

To achieve our overall objectives, we obtained and reviewed past Trustees' reports and technical panel reports to gain an understanding of the assumptions and methods used by OACT. We also reviewed pertinent documentation provided by OACT and actuarial standards of practice promulgated by the Actuarial Standards Board.

To identify and evaluate OACT's control activities over documentation of the projection process, we interviewed OACT managers and staff to identify policies and procedures, including reviews made by supervisors and managers of interim and final results. We also reviewed available paper and electronic documentation from OACT, including checklists of steps needed to complete the projections, trend analyses, and other printouts used to conduct reasonableness reviews, a KPMG Consulting report of OACT's workforce and workload, OACT's executive guide detailing its new peer review system, and the actuarial standard of practice relating to actuarial communications and documentation.

To identify and evaluate OACT's practices related to workforce planning, we obtained and reviewed OACT's workforce management plan and its professional development plan, in addition to the KPMG Consulting report on OACT's workforce and workload. We also made inquiries of OACT managers to identify their human capital practices and related policies and determine the status of their implementation of a workforce management plan and professional development plan. We pursued, as necessary, any further inquiries.

To assess OACT's tracking and resolution process to address recommendations from technical panels and other reviewers, we interviewed OACT management and officials from the HHS Office of Inspector General about policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. We also obtained documentation of OACT's response to recommendations included in a 2000 Technical Panel report.

When controls were identified, we evaluated whether the controls as designed and implemented would provide management with reasonable assurance that the control objectives were achieved. We confirmed our understanding of the internal control system currently in place through discussions with OACT officials. We did not evaluate the assumptions and methods used by OACT or the accuracy of the data and

²⁵ GAO/AIMD-00-21.3.1.

information they used. Our work was not designed to assess the effect of control weaknesses that we identified on the reliability of previous projections prepared by OACT. We conducted our work from October 2001 through November 2002, in Washington, D.C., and Baltimore, Md., in accordance with generally accepted government auditing standards. We requested and obtained written comments on a draft of this report from the Administrator of CMS. These comments are reprinted in enclosure II.

Comments from the Department of Health and Human Services

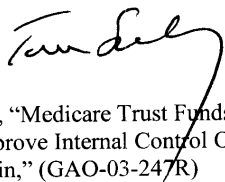
DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

Administrator
Washington, DC 20201

DATE: FEB - 5 2003

TO: Linda M. Calbom
Director, Financial Management and Assurance
General Accounting Office

FROM: Thomas A. Scully 
Administrator

SUBJECT: GAO Draft Report, "Medicare Trust Funds Actuarial Estimates: Efforts Have Been Made To Improve Internal Control Over Projection Process But Some Weaknesses Remain," (GAO-03-247R)

Thank you for the opportunity to comment on the above-referenced draft report.

The Centers for Medicare & Medicaid Services (CMS) wishes to thank the General Accounting Office (GAO) for its supportive and thorough report on the Office of the Actuary's (OACT) internal control activities. We concur in principle with the GAO recommendations for enhancement of our programs and procedures. These recommendations are congruent not only with our OACT management team's sense of what should be done, but also (as the report acknowledges) with programs we have been working to implement. Some clarification and updating seems in order, however, and we appreciate this opportunity to respond.

Overall, the GAO report contains much useful information from which we hope to benefit, both in improved self-awareness and in planning for the future, but presents us with a dilemma. Though it repeatedly cites and confirms studies showing OACT to be significantly understaffed relative to our workloads, its review measures OACT against a best-case scenario—a level of documentation, control activity, and implementation of new programs that could probably be accomplished with more funding and full staffing, but appear unrealistic under our present circumstances.

Furthermore, in assessing our internal control activities, we are concerned that the GAO report does not take into account the special institutional structure of OACT, its professional and technical staffing, and the nature of its work. Guidelines intended for components with large staffs, more systematized and predictable tasks, and hierarchical structure are not always a good "fit" for OACT. And as a service component, OACT has little control over the number of requests it receives for information, financial estimates, and other technical assistance.

In fact, the nature of the work can change radically from month to month. For these reasons, some of the recommended control activities might be difficult to implement.

The existing control practices conform closely to the GAO policy that “Management should design and implement internal control based on the related cost and benefits” (GAO’s *Standards for Internal Control in the Federal Government*). In accord with this cost-benefit guideline, current controls are intended to provide reasonable assurance or better that the work is performed accurately and appropriately, while minimizing the staff and managerial time required to obtain that level of assurance. The OACT has been fairly successful in meeting this standard, as confirmed in the GAO report, which acknowledges that outside reviewers have found the quality of our technical work to be very high and our efforts to implement meaningful human capital and technical improvements to be very effective. The informal, cost-beneficial approach is designed to enable us to meet our responsibilities effectively within resource and staffing constraints. The imposition of best-case-scenario internal controls on the Trustees Report could jeopardize our ability to complete other critical obligations, such as the projections for the President’s Budget and estimates for Medicare reform legislative proposals.

Despite these concerns, we will strive to reach the high standards for internal controls established by GAO.

Documentation and Peer Review

We concur with GAO’s concerns about the need for improved documentation procedures at OACT. Improvements in this area have been a major goal of the management team, and, as a result, documentation has been systematically and significantly increased over the past two years.

One of OACT’s most significant efforts in this regard has been the successful implementation of the formal peer review system, which is now up and running. As noted in the GAO report, this system provides for a review of data and any modifications made to the data; an analysis of all component calculations; a test for accuracy, reasonableness, and consistency with prior results; and preferred operating procedures. The PROAct Peer Review System guidelines will be used during preparation of the 2003 Trustees Report.

Incidentally, development of the peer review system was not, as the GAO report indicates, “intentionally focused on providing guidance for preparing projections for legislative proposals.” This statement is inaccurate. Rather, the system was first implemented on a pilot basis for three specific projects: FASAB requirements, cost report allocation modeling, and nursing staffing cost estimates. Once the new system had been monitored for its effectiveness and reliability and then subsequently refined, it was implemented for all team and individual work projects, including those involving the preparation of projections for legislative proposals.

Though we have significantly increased documentation efforts regarding projection procedures, work completed during the projection process, criteria for reasonable tests, and managerial reviews, we realize that room for improvement still exists. In the past, documentation practices have been dictated by both resource and time constraints. This situation has not changed. To

date, we lack the time, staffing, and control over workload that would enable us to fully implement the ideal documentation procedures.

Professional Development

The GAO notes that OACT's planned professional development program was not in place at the time of their review and indicates that we had not yet aligned training opportunities with key competencies. However, since GAO's last visit in November 2002, the professional development program has begun. The program will align targeted training opportunities with the key competencies identified by OACT managers, in consultation with KPMG. The OACT goal in professional development—and the focus of human capital management initiatives—has always been to design training and other development opportunities to match office skill needs and the strengths and weaknesses of each individual.

With the assistance of KPMG, the OACT managers identified eight competency areas—Actuarial Sciences, Economics, Managing Resources, Managing Change, Building Coalitions, Producing Results, Leading People, and Cross-Disciplinary Support Techniques (contracting, web design, etc.)—that is intended to help staff members at all levels build and cultivate their professional skills and abilities. To support our growth in these key competencies, KPMG assembled a PROAct training/development reference library, which is located in the front office and to which all OACT staff members have access. This library contains a wide array of training and development opportunities that are updated periodically as courses, conferences, seminars, and events become available.

Moreover, in the spring of this year, OACT management is planning to implement a leadership development program, which will prepare future managers and technical leaders for the challenges they will face when existing managers retire. Under this innovative and groundbreaking program, interested staff members will assume key leadership responsibilities on a rotation basis as a way of gaining knowledge and experience and increasing skills.

Even before these professional development initiatives were begun, OACT had a substantial and successful track record in this area. For example, OACT has for some time had in place a formal on-the-job study program for actuaries. The OACT also actively encourages and supports all interested staff to take graduate courses and seek higher degrees. This commitment to employee development includes offering full financial support and even making on-the-job study time available, in spite of high workload and shortfalls in staffing. As a measure of success in employee development, consider that fully 20 percent of OACT's actuarial staff are Fellows of the Society of Actuaries (a percentage that is probably the highest of any government employer). In addition, five staff members at OACT have completed master's degrees in the last few years.

The OACT's professional development program was designed as a part of our larger human capital management plan, which, as GAO notes, is being used as a model for other CMS components. OACT has been very successful in implementing most of this plan's priority initiatives, including a formal peer review process, a professional development program, and succession planning. One exception is the workload balancing plan (also designed with the help

of KPMG and scheduled for completion on December 14, 2001), which GAO points out has never been implemented. The OACT managers were, in fact, prepared to implement this initiative, but to date have been prevented from doing so by higher priority legislative requests, recurring work products, and time and resource constraints.

Tracking and Resolution Procedures for Recommendations from Reviewers

The GAO recommends that OACT develop and implement a formal policy—including checklists, timetables, and risk assessments—to track, follow up, and resolve findings and recommendations of external audits and reviews. This recommendation stems from GAO’s concern that decisions are being made during informal planning sessions, rather than by means of a formal tracking system, and that important recommendations from external reviewers may not be addressed timely as a result.

We agree that formal monitoring policies and processes are optimal, and we acknowledge that our internal control procedures have, in the past, been less prescriptive than recommended by the *Standards for Internal Control in the Federal Government*. This situation is due more to ever-increasing workloads and critical deadlines than to a lack of fundamentally sound policies and procedures.

However, our decisions, while not always sufficiently documented, are reached by means of reasoned and formal processes of discussion, debate, consensus, and review. In responding to and implementing the recommendations of the Technical Panel and KPMG, we prioritized the KPMG and Technical Panel recommendations and selected those we felt were both crucial and feasible for immediate implementation.

As the GAO report points out, 60 percent of the recommendations OACT received from the Technical Panel have already been implemented—and in less than two years. It is important to note that all of the Technical Panel recommendations—including those that have been and those that have not yet been acted upon—are, in the Panel’s view, refinements to existing methods. Accordingly, their implementation involves no “risk” to the quality and accuracy of OACT work products. The OACT management team has, from the moment it received recommendations from the Technical Panel, as well as from KPMG, proceeded in a systematic manner to prioritize and implement them, taking need and risk into account. Still, we acknowledge the additional, if marginal, value of a more formal tracking system for such decision-making and will take steps to conform as much as possible to the guidelines in the *Standards for Internal Control in the Federal Government*.

We would add, however, because of OACT demanding, unpredictable workloads and external deadlines, the ability to make desired improvements is often uncertain. Similarly, adherence to fixed timetables would often be problematic for OACT. The OACT has no way to plan for legislative activity—their office has been known to receive as many as 40 major assignments in a single month from the White House alone—and much effort goes into meeting short-term deadlines as best we can. These requests must be honored—often on extremely tight

deadlines—at the same time that management and staff are fulfilling their regular obligations and responsibilities.

Conclusion

None of these clarifications contradict or dispute the need for further improvements in documentation, professional development, and tracking procedures. We share with GAO a strong commitment to effectiveness, efficiency, and accountability in both the performance of our work and the conduct of control activities. We agree with GAO on the importance of improving documentation, increasing professional development opportunities, and refining all control activities at OACT, and have been actively working to achieve these goals. We believe we have done a reasonable job with our informal and cost-beneficial approach, in keeping with efficient use of our available resources.

We would like to thank GAO for the professional manner in which the data were collected and for the thoroughness and insight of their report.

Technical and Editorial Comments

1. Page 1, line 3 of first paragraph. The number \$240.9 billion should be \$240.8 billion.
2. Page 2, footnote 3. The footnote is incorrect as currently written. It should read as follows: "The Trustees project that the SMI trust fund would never be exhausted under current law, because its financing is re-established each year to match expenditures."
3. Page 2, line 4. The phrase should read "to exceed tax revenue" instead of "to exceed revenue."
4. Page 4, footnote 7, sentence 2. The sentence could be improved by stating "The Technical Panel was convened on behalf of the Medicare Board of Trustees and was governed by provisions . . ." instead of "The Technical Panel was governed by provisions. . ."
5. Page 4, footnote 7, sentence 3. The sentence would be more informative if worded ". . . selected by the Secretary of HHS or by a designee (chosen on the basis of recommendations from the two public members of the Board of Trustees), who were experts . . ." instead of ". . . selected by the Secretary of HHS, or designee, who were experts. . ."
6. Page 5 line 10. The clause should read "While no errors have been identified" instead of "While no major errors have been identified."
7. Page 6 line 2. Since we now have a formal professional development plan, the sentence should read "With impending staff retirements, the risk . . ." instead of "With impending staff retirements and without formal programs to enhance staff knowledge and expertise, the risk. . ."
8. Page 6, first complete paragraph, second sentence. This sentence appears misleading. The statement that OACT "lacks a formal monitoring policy and standard process for (1) tracking recommendations it has received, (2) deciding which recommendations should be implemented, (3) determining the priority recommendations should receive, and (4) documenting the resolution of each recommendation" seems to imply that there are no procedures in place. But procedures already exist at OACT for these purposes, though they might not entirely conform to the best-case standards that GAO used in its evaluation.

Moreover, the existing procedures have worked very well in practice. The KPMG planning efforts have led to implementation of three major human capital initiatives, and the Medicare and Medicaid Cost Estimates Group have implemented 60 percent of the Technical Panel recommendations.
9. Page 9, middle and bottom paragraphs. The report could give parallel coverage in the cited assessments from the Technical Panel and KPMG. In describing the Technical Panel findings, the report says that "the Technical Panel reported that the projection work of OACT is of excellent quality and that OACT performs in a highly competent and completely

professional manner.” To mirror these Technical Panel findings, the report could add either of the following quotations from the KPMG 2001 report:

“... OACT is a strong team with a progressive outlook that consistently meets the challenges of its ever increasing workload obligations” (page 3, Executive Summary); or

“KPMG Consulting acknowledges OACT as a high-performing organization, who has demonstrated their high-level of technical expertise through their many accomplishments” (page 4, Executive Summary).

10. Page 14, last 3 lines. With regard to the review of graphs, trend analyses, and tables, GAO states that “While OACT officials said they included these graphs and trend analyses in their review, these documents lacked any evidence to demonstrate that the reviews were completed.”

We can, in fact, provide a copy of all of the charts, many annotated with questions or comments, as evidence that the review of the new projections versus the prior years was actually conducted. We can also provide documented evidence of the specific date of the review.

11. Page 15, last sentence of first paragraph. The GAO’s statement that “a lack of documentation of these reviews limits assurance to management that its directives have been carried out” does not take into account the fact that the managers of the Medicare and Medicaid Cost Estimates Group, as well as the Chief Actuary, participate directly in the reviews, as an integral part of the process. Thus, we automatically know that the reviews have been performed.
12. Page 16, first sentence of first paragraph. The sentence should incorporate the fact that OACT’s peer review system was designed not only with assistance from KPMG Consulting, but also with the help of a team convened by the OACT Quality Council, which did extensive benchmarking of other private and public peer review systems.
13. Page 18, last sentence of top partial paragraph. In our view, the sentence would more accurately read “. . . documenting the projection process is helpful for an efficient transition of workload” instead of “. . . documenting the projection process is critical for an efficient transition of workload.”
14. Page 19, second sentence of bottom paragraph. The degree to which OACT is understaffed, as determined by KPMG, would be better represented by saying that “. . . OACT was understaffed by 26.5 FTEs, or approximately one-third of recommended staff levels.”
15. Page 23, eighth line from bottom. The sentence would more accurately read “. . . recommended that a multiyear implementation plan be developed to implement the remaining Technical Panel recommendations” instead of “. . . recommended that a multiyear implementation plan be developed to resolve the Technical Panel’s concerns.”
16. Page 24, third sentence in first paragraph. GAO’s statement that “this tracking document does not provide management’s position on the recommendations” is accurate, but

incomplete. We had already gone on record to the Board of Trustees supporting *all* of the Technical Panel's recommendations, so it was unnecessary to list our position on each one in the tracking document.

17. Page 24, lines 7, 16, and 18. The GAO's references to "corrective actions" in describing the Technical Panel and KPMG recommendations erroneously implies that errors need to be corrected, when in fact both groups were recommending improvements to existing and satisfactory processes.
18. Page 25, fourth sentence of the conclusion. The sentence would more clearly read "Most significantly, inadequate documentation of the procedures used to make the projections . . ." rather than "Most significantly, inadequate documentation of the procedures needed to make the projections. . . ." The word "needed" should be replaced with "used" to clarify that it is the documentation that is inadequate, not the procedures.
19. Page 25, last sentence of the first paragraph of the conclusion. The conjecture "While resource constraints might have impeded OACT's documentation efforts" seems to underestimate the scope of the problem. This assertion appears to question whether such constraints really could or should have limited OACT's ability to document work on a best-case-scenario basis. However, there should be no question that a 26.5-FTE shortage, relative to a total of 61 FTEs, represents a severe obstacle not just to documentation, but to almost all of our work.
20. Page 26, line 1. The statement that "management has not documented the priority and status of actions planned" should be changed to "management has not documented the priority of actions planned." For Technical Panel recommendations, the status of the actions is clear from the existing tracking document maintained by the Medicare and Medicaid Cost Estimates Group.